

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name PORTAGE LK WATER & SEWER AUTHORITY	County HOUGHTON
Audit Date 6/30/05	Opinion Date 8/23/05	Date Accountant Report Submitted to State: 10/19/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

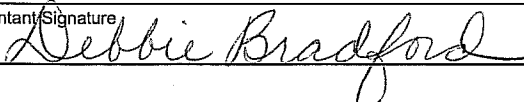
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed		
	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) BRUCE A. RUKKILA, CPA, PC			
Street Address 310 SHELLEN AVENUE		City HOUGHTON	State MI
		ZIP 49931	
Accountant Signature 			Date 10/19/05

PORTAGE LAKE WATER & SEWAGE AUTHORITY
HOUGHTON, MICHIGAN

AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTAL FINANCIAL INFORMATION

June 30, 2005

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Portage Lake Water & Sewage Authority
Houghton, Michigan 49931

We have audited the accompanying financial statements of the Portage Lake Water & Sewage Authority as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of Portage Lake Water & Sewage Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A to the Financial Statements, the Authority does not recognize depreciation, amortization of gain on defeased debt, or accrued compensated absences as required by generally accepted accounting principles. In addition, the Authority's has not adopted the reporting format of Governmental Accounting Standards Board Statement No. 34.

In our opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the dollar amount of which we have not determined, the financial statements referred to above present fairly, in all material respects, the financial position of the Portage Lake Water & Sewage Authority as of June 30, 2005, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 23, 2005, on our consideration of Portage Lake Water & Sewage Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the combined financial statements taken as a whole. The accompanying supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Portage Lake Water & Sewage Authority. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, except for the effects on the financial statements of the omissions described previously, the dollar amount of which we have not determined, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Bruce A. Rukhila, CPA, PC
Certified Public Accountants

August 23, 2005



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Portage Lake Water & Sewage Authority
Houghton, Michigan 49931

We have audited the financial statements of Portage Lake Water & Sewage Authority as of and for the year ended June 30, 2005, and have issued our report thereon dated August 23, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Portage Lake Water & Sewage Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Portage Lake Water & Sewage Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Bruce A. Rukkila, CPA, PC

Certified Public Accountants

August 23, 2005

PORTAGE LAKE WATER & SEWAGE AUTHORITY
COMBINED BALANCE SHEET

June 30, 2005

	Operating Fund	Sanitary Water Supply System No.1 (Hancock)	Combined Total
ASSETS			
CURRENT ASSETS:			
Cash and equivalents	\$ 113,446	\$ -	\$ 113,446
Investments	96,213	-	96,213
Due from other government units	42,653	-	42,653
Inventory	2,700	-	2,700
Prepaid expense	6,660	-	6,660
TOTAL CURRENT ASSETS	<u>261,672</u>	<u>-</u>	<u>261,672</u>
RESTRICTED ASSETS:			
Cash and equivalents	102,004	-	102,004
Investments	491,044	-	491,044
TOTAL RESTRICTED ASSETS	<u>593,048</u>	<u>-</u>	<u>593,048</u>
PROPERTY, PLANT, AND EQUIPMENT:			
Land and improvements	399,320	-	399,320
Buildings and plant	23,154,675	224,496	23,379,171
Equipment	297,403	-	297,403
TOTAL PROPERTY, PLANT, AND EQUIPMENT	<u>23,851,398</u>	<u>224,496</u>	<u>24,075,894</u>
OTHER ASSETS:			
Advance refunding bond issuance costs	216,808	-	216,808
TOTAL ASSETS	<u>\$ 24,922,926</u>	<u>\$ 224,496</u>	<u>\$ 25,147,422</u>
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Accounts payable	\$ 39,792	\$ -	\$ 39,792
Other accrued expenses	63,029	-	63,029
Current maturities on long-term debt	444,200	-	444,200
TOTAL CURRENT LIABILITIES	<u>547,021</u>	<u>-</u>	<u>547,021</u>
LONG-TERM LIABILITIES:			
General obligation bonds (See Note D)	8,610,774	-	8,610,774
Less current maturities	(444,200)	-	(444,200)
TOTAL LONG-TERM LIABILITIES	<u>8,166,574</u>	<u>-</u>	<u>8,166,574</u>
TOTAL LIABILITIES	<u>8,713,595</u>	<u>-</u>	<u>8,713,595</u>
EQUITY:			
Contributed Capital	15,813,023	224,496	16,037,519
Reserved Equity (See Note H)	396,308	-	396,308
TOTAL EQUITY	<u>16,209,331</u>	<u>224,496</u>	<u>16,433,827</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 24,922,926</u>	<u>\$ 224,496</u>	<u>\$ 25,147,422</u>

The accompanying notes to the financial statements are an integral part of this statement.

PORTAGE LAKE WATER & SEWAGE AUTHORITY
COMBINED STATEMENT OF CHANGES IN EQUITY

Year ended June 30, 2005

	<u>Federal State and Other</u>	<u>Houghton</u>	<u>Hancock</u>	<u>Combined Total</u>
CONTRIBUTED CAPITAL:				
Balance at beginning of year	\$11,087,463	\$3,029,161	\$1,665,894	\$15,782,519
Bond payments	<u>-</u>	<u>186,341</u>	<u>68,659</u>	<u>255,000</u>
TOTAL CONTRIBUTED CAPITAL	<u>\$11,087,463</u>	<u>\$3,215,502</u>	<u>\$1,734,553</u>	<u>\$16,037,518</u>
RESERVE EQUITY				
RESERVED FOR CONTINGENCY				
(See Note H):				
Balance at beginning of year		<u>\$ 18,752</u>	<u>\$ 18,006</u>	<u>\$ 36,758</u>
Balance at end of year		<u>18,752</u>	<u>18,006</u>	<u>36,758</u>
RESERVED FOR REPAIR AND REPLACEMENT				
(See Note H):				
Balance at beginning of year		81,033	39,165	120,198
Budget in excess of actual		675	242	917
Interest income		1,050	376	1,426
Designated expenses		<u>(32,059)</u>	<u>(11,497)</u>	<u>(43,556)</u>
Balance at end of year		<u>50,699</u>	<u>28,286</u>	<u>78,985</u>
RESERVED FOR BOND PAYMENTS				
(See Note H):				
Balance at beginning of year		53,061	19,037	72,098
Actual in excess of budget		148,880	53,390	202,270
Interest income		<u>4,561</u>	<u>1,636</u>	<u>6,197</u>
Balance at end of year		<u>206,502</u>	<u>74,063</u>	<u>280,565</u>
TOTAL RESERVE EQUITY		<u>\$ 275,953</u>	<u>\$ 120,355</u>	<u>\$ 396,308</u>

The accompanying notes to the financial statements are an integral part of this statement.

PORTAGE LAKE WATER & SEWAGE AUTHORITY
COMBINED STATEMENT OF OPERATIONS

Year ended June 30, 2005

	Operating Fund	Sanitary Water Supply System No.1 (Hancock)	Combined Total
OPERATING INCOME:			
Charges to Houghton	\$ 942,588	\$ 0	\$ 942,588
Charges to Hancock	341,497	0	341,497
Other income	5,668	0	5,668
TOTAL OPERATING INCOME	1,289,753	0	1,289,753
OPERATING EXPENSES:			
Wages	218,251	0	218,251
Payroll taxes	23,032	0	23,032
Employee benefits	120,939	0	120,939
Administrative expenses	69,136	0	69,136
Office operations	3,164	0	3,164
Power	147,846	0	147,846
Fuel for heat	13,776	0	13,776
Water	1,371	0	1,371
Phosphate chemicals	41,605	0	41,605
Snow removal and bed prep	9,762	0	9,762
Maintenance parts and supplies	35,960	0	35,960
Repair and replacements	37,083	0	37,083
Vehicle expense	3,458	0	3,458
Lab and other supplies	10,681	0	10,681
Outside lab services	24,280	0	24,280
Insurance	34,510	0	34,510
Telephone	10,418	0	10,418
Professional services	8,581	0	8,581
Training and travel	545	0	545
Bank charges	0	0	0
Miscellaneous	720	0	720
TOTAL OPERATING EXPENSES	815,118	0	815,118
NET OPERATING INCOME	474,635	0	474,635
NON-OPERATING INCOME (EXPENSE)			
Interest income	8,095	0	8,095
Interest expense	(482,730)	0	(482,730)
TOTAL NON-OPERATING INCOME (EXPENSE)	(474,635)	0	(474,635)
NET INCOME	\$ 0	\$ 0	\$ 0

The accompanying notes to the financial statements are an integral part of this statement.

PORTAGE LAKE WATER & SEWAGE AUTHORITY
COMBINED STATEMENT OF CASH FLOWS
Year ended June 30, 2005

	Operating Fund	Sanitary Water Supply System No.1 (Hancock)	Combined Total
Cash flows from operating activities:			
Operating income	\$ 474,635	\$ 0	\$ 474,635
Adjustments to reconcile operating income to net cash provided by operating activities:			
(Increase) decrease in due to/from other governments	(5,678)	0	(5,678)
(Increase) decrease in accounts receivable	0	0	0
(Increase) decrease in prepaid expenses	(1,611)	0	(1,611)
Increase (decrease) in accounts payable	5,432	0	5,432
Increase (decrease) in accrued bond interest	(100,674)	0	(100,674)
Increase (decrease) in other accrued expenses	(9,384)	0	(9,384)
Total adjustments	(111,915)	0	(111,915)
Net cash provided (used) by operating activities	362,720	0	362,720
Cash flows from investing activities:			
Purchase of investment securities	(948,865)	0	(948,865)
Redemption of investment securities	885,154	0	885,154
Interest received cash deposits	8,095	0	8,095
Net cash provided (used) by investing activities	(55,616)	0	(55,616)
Cash flows from financing activities:			
Principal paid on bonds	(255,000)	0	(255,000)
Interest paid on bonds	(482,730)	0	(482,730)
Contributed capital	422,253	0	422,253
Net cash provided (used) by financing activities	(315,477)	0	(315,477)
Net increase (decrease) in cash and equivalents	(8,373)	0	(8,373)
Cash and equivalents, beginning of year	223,823	0	223,823
Cash and equivalents, end of year	\$ 215,450	\$ 0	\$ 215,450

The accompanying notes to the financial statements are an integral part of this statement.

PORTAGE LAKE WATER & SEWAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS – June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

The following is a summary of the more significant accounting policies of the Portage Lake Water & Sewage Authority:

SCOPE OF REPORTING ENTITY

The Portage Lake Water & Sewage Authority entered into a contract with the City of Houghton and the City of Hancock for the acquisition, improvements, enlargement, extension, operation, and maintenance of a sewage disposal system. The cost of operations and improvements are divided between the City of Houghton and the City of Hancock on a pro rata basis based upon the percentage use of the plant by each city as measured by the material flow from the pumping station.

In accordance with the provisions of the Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, the financial statements of the Portage Lake Water & Sewage Authority contain all of the financial activity of the Authority's funds. The Authority is not considered a component unit of either city. Elements considered in determining that the Authority is not a component unit of the cities are as follows:

1. The Cities are not responsible for the designation of the Authority's management.
2. The Cities do not approve the Authority's annual budget or budget amendments.
3. The Cities do not significantly influence operations.
4. The Cities each appoint two of the five members to the Authority's Board of Trustees.
5. The Cities do not have significant fiscal management responsibilities. They do not have a right to receive surplus payments made to the authority and are not responsible for guaranteeing certain debt.
6. The Cities provide no direct on-going financial support to the Water & Sewage Authority.
7. The Cities do not hold title to the physical assets of the Authority.

Financial transactions between the Cities and the Authority, reported in the accompanying financial statements, constitute contractual agreements for providing services. The Cities should account for their investment in the Authority, using the Equity method, as required by generally accepted accounting principles.

BASIS OF ACCOUNTING

The basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Funds of the Authority are accounted for using the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recognized when incurred.

REVENUES

Revenues (charges to the Cities) are recognized based on actual expenditures incurred, adjusted annually based on audited amounts. Operating expenses are allocated to the Cities of Houghton and Hancock based on the number of gallons of flowage processed annually. Expenditures for capital assets, debt principal payments, and other nonoperating type expenditures are charged directly to the Cities using the same allocation basis. These charges are recorded as contributions to the respective city's equity account.

PORTAGE LAKE WATER & SEWAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS – June 30, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (Continued)

FIXED ASSETS

All fixed assets are valued at historical cost. The Authority has not included a provision for depreciation of plant and equipment in the financial statements as required by generally accepted accounting principles because the agreement establishing the Authority does not provide for the establishment of a reserve for this purpose.

LONG-TERM DEBT

Beginning June 30, 1998, the Authority does not amortize bond refunding costs or gain on defeased debt relating to its bond issues as required by generally accepted accounting principles.

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, cash and equivalents consist of cash on hand and cash in savings and checking accounts.

INVENTORY

Inventories are valued at cost.

BUDGETARY DATA

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Each April, the Plant Superintendent and Administrative Secretary prepare a proposed operating budget for the fiscal year commencing the following July 1, and submit the proposed budget to the Board at the regular May meeting.
2. The Board reviews the proposed budget, which includes proposed expenditures and the means of financing them.
3. Pursuant to statute, the board approves the budget and submits it to the respective municipality's legislative bodies for their records. The final budget is formally adopted at the next board meeting. No budget shall be adopted unless approved by a four-fifths vote of the members-elect of the Board of Trustees.
4. The Board reviews the budget quarterly during the fiscal year and makes formal amendments when appropriate.
5. Budget appropriations lapse at the end of the fiscal year.

ENCUMBRANCES

Encumbrances are defined as commitments related to unperformed contracts for goods and services. The Authority does not record encumbrances in the normal course of operating its accounting system and none are recorded in the accompanying financial statements.

PORTAGE LAKE WATER & SEWAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS – June 30, 2005

NOTE B - CASH AND EQUIVALENTS

Cash and equivalents can be summarized as follows:

<u>Unrestricted:</u>	
Operating	\$ 113,371
Cash on hand	75
Total Unrestricted	<u>113,446</u>
<u>Restricted:</u>	
Debt Retirement	102,004
Total Cash and Equivalents	<u>\$ 215,450</u>

Statutory Authority

Act 217, PA 1982, authorizes the Authority to deposit and invest in:

1. Bonds and other direct obligations of the United States or its agencies.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of federally insured banks, insured savings and loan associations or credit unions insured by the National Credit Union administration that are eligible to be a depository of surplus money belonging to the State under Section 5 or 6 of Act 105, PA 1855, as amended.
3. Commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after purchase and not more than 50 percent of any fund may be invested in commercial paper at any time.
4. United States government or Federal agency obligation repurchase agreements.
5. Banker's acceptance of United States banks.
6. Mutual funds composed of investments which are legal for direct investments by local units of government in Michigan.

CASH DEPOSITS

At June 30, 2005, the book value of the Authority's demand deposits, consisting primarily of cash and cash equivalents, was \$215,450 with a corresponding bank balance of \$217,284. Qualifying deposits are insured by the Federal Deposit Insurance Corporation up to \$100,000. Of the bank balance \$200,000, representing approximately 92% of the Authority's deposits, was covered by Federal Depository Insurance. Michigan law does not require collateralization of government deposits, therefore, only the \$200,000 was insured and \$17,284 was neither insured or collateralized.

INVESTMENTS

The investment of the Authority's funds is governed by state statutes. In general, state statutes provide that the Authority is authorized to invest its funds in certificates of deposits, savings accounts, and deposit accounts in a bank which is a member of the Federal Deposit Insurance Corporation. In addition, it may also invest in bonds, securities and other obligations of the United States in which the principal and interest is fully guaranteed by the United States, and investments in commercial paper rated prime at the time of purchase and which matures not more than 270 days after the date of purchase.

PORTAGE LAKE WATER & SEWAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS – June 30, 2005

NOTE B - CASH AND EQUIVALENTS (Continued)

Investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

1. Insured or registered, or securities held by the entity or its agent in the entity's name.
2. Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the entity's name.
3. Uninsured and unregistered, with securities held by the counter-party or by its trust department or agent but not in the entity's name.

The Authority's investments consist of U.S. Treasury Securities that are not categorized because they are not evidenced by securities that exist in physical or book entry form.

The fair value of the investments are not materially different than the reported amounts. Investment amounts of \$491,044 is restricted for Debt Retirement and \$96,213 is unrestricted.

NOTE C - FIXED ASSETS

Property and equipment are stated at cost. Expenditures which materially extend the useful life of existing properties are capitalized. All costs relating to the construction of facilities are capitalized, including salaries, employee benefits, and bond interest costs.

The components of property, plant, and equipment for the operating fund are summarized as follows:

Description	Amount
Land and Improvements	\$ 15,134
Land - New Sewer Plant	384,186
Total Land and Improvements	399,320
Building, tanks, and appurtenances	22,106,079
Pumps	307,516
Non-potable water system	16,972
Area Step I plan	2,500
Plant modernization	60,600
Houghton interceptors	403,675
Hancock interceptors	257,333
Total plant system	23,154,675
Automotive equipment	170,782
Lab equipment	19,924
Other equipment	106,697
Total equipment	297,403
TOTAL	\$ 23,851,398

PORTAGE LAKE WATER & SEWAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS – June 30, 2005

NOTE D - LONG-TERM DEBT

On January 16, 1991, the Authority and the local units entered into a contract for the acquisition, construction, installation, financing, operation, and maintenance of a new waste-water treatment plant to replace the existing treatment plant. The local units are obligated to pay the cost of the improvements to be financed by the issuance of bonds.

1995 Advance Refunding Bonds

On February 1, 1995, the Authority issued \$9,630,000 of general obligation - unlimited tax bonds to advance refund \$8,400,000 of outstanding unlimited tax and obligation bonds. The proceeds of the bonds was used to pay certain costs of issuance relating to the partial refunding of Series II Bonds, dated December 19, 1991, and Series III Bonds, dated March 31, 1992. As of July 5, 2005 these bonds have been refunded with General Obligation Limited Tax Refunding Bonds, Series 2005. On October 1, 2005 the entire refunding bond principal, interest and a premium of \$179,800 will be paid from the General Obligation Limited Tax Refunding Bonds, Series 2005 escrow account.

1995 Advance Refunding Bonds - Schedule

Fiscal Year	October 1		Total
	Interest	Principal	
2005-06	\$ 273,832	\$ 9,140,000	\$ 9,413,832

1998 Advance Refunding

On June 1, 1998, the Authority issued \$1,360,000 of general obligation - unlimited tax bonds to advance refund \$1,220,000 of outstanding unlimited tax and obligation bonds. The proceeds of the bonds was used to pay certain costs of issuance relating to the partial refunding of Series 1991 Bonds, dated February 1, 1991 and Series II Bonds, dated December 1, 1991 and to establish an "Escrow Fund". The Escrow Fund was held by an escrow agent and was used to pay the principal and interest, and call premiums coming due on the refunded bonds, whether by maturity or by redemption on April 1, 1999 for the Series 1991 Bonds and October 1, 2002 for the Series II Bonds.

The bond issue (denominations of \$5,000) matures as indicated below with interest at varying rates of 4.00% to 4.55% per annum. Interest payments started on October 1, 1998, and are payable semi-annually on April 1, and October 1 as indicated. The bonds are to be both term and serial.

The principal amount of the Term Bonds to be redeemed on the dates set forth above shall be reduced by the principal amount of the Term Bonds which have been previously redeemed or called for redemption (other than as a result of mandatory redemption) or purchased or acquired by the Issuer and delivered to the Transfer Agent. The Issuer may satisfy mandatory redemption requirements by purchasing and surrendering Term Bonds in lieu of the calling of such Term Bonds for redemption. The Bonds are not subject to optional redemption prior to maturity.

1998 Advance Refunding Schedule

Fiscal Year	October 1		April 1	Total
	Interest	Principal	Interest	
2005-06	\$ 10,461	\$ 235,000	\$ 5,233	\$ 250,694
2006-07	5,233	230,000	0	235,233
TOTAL	\$ 15,694	\$ 465,000	\$ 5,233	\$ 485,927

PORTAGE LAKE WATER & SEWAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS – June 30, 2005

NOTE D - LONG-TERM DEBT (Continued)

2005 Advance Refunding

On July 5, 2005 the Authority issued \$9,535,000 of general obligation limited tax refunding bonds to advance refund \$8,990,000 of outstanding unlimited tax and obligation bonds. The proceeds of the bonds will be used to provide for the payment of the principal of, interest on and redemption premium on the 1995 Refunding Bonds. The Escrow Fund will be held by an escrow agent and will be used to pay, when due, the principal and interest, and call premiums coming due on the refunded bonds, whether by maturity or by redemption on October 1, 2005.

This advance refunding was undertaken to reduce total debt service payments over the next 16 years by \$1,147,867 and to gain an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of \$1,005,523. Sources and uses of funds to service the old debt and the new debt and complete the refunding were as follows:

<u>Sources of Funds:</u>	
Par amount of bonds	\$ 9,535,000
Underwriter's discount	(21,147)
Transfers from prior issue Debt Service Funds	143,001
NET SOURCES OF FUNDS	<u>\$ 9,656,854</u>
 <u>Uses of Funds:</u>	
Purchase price	\$ 9,379,859
Costs of Issuance	48,975
Beginning cash deposit to escrow account	1
Underwriter's discount	143,025
Municipal Bond Insurance	84,336
Contingency	658
TOTAL FUNDS USED	<u>\$ 9,656,854</u>

The bond issue matures as indicated below with interest at varying rates of 3.00% to 3.5% per annum. Interest payments started on October 1, 2005, and are payable semi-annually on April 1, and October 1 as indicated. The bonds are to be both term and serial.

Optional Redemption: The Bonds coming due on and after October 1, 2016, are subject to redemption prior to maturity at the option of the Authority on any date on and after October 1, 2015, from any available moneys, in whole or in part, and if in part, in such principal amounts and from such maturities as the Authority shall determine and within any maturity by lot, at a redemption price of par plus accrued interest to the date fixed for redemption.

Mandatory Redemption: The Bonds maturing on October 1, 2007, October 1, 2011, October 1, 2012, October 1, 2013, October 12, 2014, October 1, 2015, October 1, 2016, October 1, 2017, October 1, 2018, October 1, 2019 and April 1, 2021 (the "Term Bonds") are also subject to mandatory sinking fund redemption in part and by lot, on April 1 and October 1 of each of the years and in the amounts set forth below at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date. Notice of such call shall be given by mailing a notice thereof at least thirty (30) days, but not more than sixty (60) days, prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the registration books.

PORTAGE LAKE WATER & SEWAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS – June 30, 2005

NOTE D - LONG-TERM DEBT (Continued)

Redemption Schedule

Redemption Year	October 1	April 1
2006-2007	\$ 0	\$ 145,000
2010-2011	265,000	290,000
2011-2012	290,000	295,000
2012-2013	300,000	305,000
2013-2014	315,000	320,000
2014-2015	325,000	330,000
2015-2016	335,000	345,000
2016-2017	350,000	355,000
2017-2018	365,000	370,000
2018-2019	380,000	385,000
2019-2020	390,000	400,000
2020-2021	405,000	415,000
	<u>\$ 3,720,000</u>	<u>\$ 3,955,000</u>

2005 Advance Refunding Schedule

Fiscal Year	October 1		April 1		Total
	Interest	Principal	Interest	Principal	
2005-2006	\$ 85,493	\$ 0	\$ 178,939	\$ 55,000	\$ 319,432
2006-2007	178,114	140,000	176,014	145,000	639,128
2007-2008	173,839	265,000	169,864	270,000	878,703
2008-2009	165,308	270,000	160,751	275,000	871,059
2009-2010	155,939	280,000	151,039	285,000	871,978
2010-2011	146,051	285,000	141,064	290,000	862,115
2011-2012	136,061	290,000	131,059	295,000	852,120
2012-2013	125,822	300,000	120,497	305,000	851,319
2013-2014	114,931	315,000	109,182	320,000	859,113
2014-2015	103,182	325,000	97,089	330,000	855,271
2015-2016	90,819	335,000	84,454	345,000	855,273
2016-2017	77,726	350,000	70,901	355,000	853,627
2017-2018	63,801	365,000	56,501	370,000	855,302
2018-2019	49,009	380,000	41,314	385,000	855,323
2019-2020	33,517	390,000	25,620	400,000	849,137
2020-2021	17,220	405,000	8,715	415,000	845,935
	<u>\$ 1,716,832</u>	<u>\$ 4,695,000</u>	<u>\$ 1,723,003</u>	<u>\$ 4,840,000</u>	<u>\$ 12,974,835</u>

Activity of long-term debt was as follows for the year ended June 30, 2005:

	Balance June 30, 2004	Addition	Retirement	Balance June 30, 2005
1995 Refunding	\$ 9,285,000	\$ 0	\$ 145,000	9,140,000
1998 Refunding	575,000	0	110,000	465,000
2005 Refunding	0	9,535,000	0	9,535,000
TOTAL	<u>\$ 9,860,000</u>	<u>\$ 9,535,000</u>	<u>\$ 255,000</u>	<u>\$ 19,140,000</u>

PORTAGE LAKE WATER & SEWAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS – June 30, 2005

NOTE D - LONG-TERM DEBT (Continued)

Schedule of Aggregate Maturities
June 30, 2005

Fiscal Year	Interest	Principal	Total
2005-2006	\$ 553,958	\$ 9,430,000	\$ 9,983,958
2006-2007	359,361	515,000	874,361
2007-2008	343,703	535,000	878,703
2008-2009	326,059	545,000	871,059
2009-2010	306,978	565,000	871,978
2010-2011	287,115	575,000	862,115
2011-2012	267,120	585,000	852,120
2012-2013	246,319	605,000	851,319
2013-2014	224,113	635,000	859,113
2014-2015	200,271	655,000	855,271
2015-2016	175,273	680,000	855,273
2016-2017	148,627	705,000	853,627
2017-2018	120,302	735,000	855,302
2018-2019	90,323	765,000	855,323
2019-2020	59,137	790,000	849,137
2020-2021	25,935	820,000	845,935
	<u>\$ 3,734,594</u>	<u>\$ 19,140,000</u>	<u>\$ 22,874,594</u>

The following is a reconciliation of the total aggregate maturities above to the amount reported on the balance sheet:

Total Aggregate Maturities	\$ 19,140,000
Contra Refunding	(724,755)
Bond Discount	(269,471)
2005 Refunding Bond	(9,535,000)
Long-Term Debt - Balance Sheet	<u>\$ 8,610,774</u>

NOTE E- SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Segment information for the year ended June 30, 2005 is as follows:

Operating Revenues	\$1,289,753
Depreciation	\$0
Operating Income (Loss)	\$474,635
Non-operating Revenue (Expense)	\$(474,635)
Net Income (Loss)	\$0
Property, Plant and Equipment:	
Additions	\$0
Net Working Capital (Deficit)	\$(204,711)
Total Assets	\$25,147,442

PORTAGE LAKE WATER & SEWAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS – June 30, 2005

NOTE F - PENSION PLAN

Several employees of the Authority are covered under a union administered pension plan. The Authority's contribution is determined by applying a fixed rate to the hours worked by covered employees. The total cost of the pension plan for the year ended June 30, 2005, was \$5,928 and is included in the Statement of Operations with employee benefit costs.

On August 13, 1996, the Authority approved a simplified employee benefit pension plan. The Authority makes contributions to the plan on behalf of its non-union employees. For 2004-05, contributions were made at 8% of gross salary for employees who are over the age of 21 and received at least \$450 in compensation for the year. Total contributions for the year ending June 30, 2005 amounted to \$5,667. The Authority has no liability for the plan beyond its annual contributions.

NOTE G - COMPENSATED ABSENCES

Authority employees generally earn sick leave at the rate of one day per month. Sick leave may be accumulated up to ninety (90) days. In the case of employee death or termination, fifty percent (50%) of any unused sick leave will be paid to the employee or the employee's estate. Upon retirement, one hundred percent (100%) of the unused sick pay will be paid to retirees up to the maximum 90 days. Vacation pay may be accumulated up to twenty-five (25) days.

Vacation pay is accumulated annually based on length of service as follows:

<u>Years of Service</u>	<u>Days of Vacation</u>
1	1 week
2 through 4	2 weeks
5 through 9	3 weeks
10 or more	4 weeks

Accrued vacation and sick time are not being recorded as a liability on the Balance Sheet, as required by generally accepted accounting principles. Total accumulated vacation and sick leave at June 30, 2005, was \$14,640 and \$12,659 respectively.

NOTE H - EQUITY RESERVE

Repair and Replacement

In 1985, the Authority established a repair and replacement equity reserve account to provide a method for accumulating funds for repairs in excess of \$500 to the aging utility plant. Funds budgeted but unspent and interest earned each year are to be retained by the authority in the reserve for use in future years. The 2004-05 budgeted and expensed amounts for repairs and replacement were \$38,000 and \$37,083 respectively, over spending the budget amount by \$917. During the current year the Authority utilized \$43,556 of reserved repair and replacement equity and earned \$1,426 in interest. Therefore the repair and replacement equity reserve accounts at June 30, 2005, were adjusted to reflect the net change of \$41,213, using the cost allocation percentages for each city.

PORTAGE LAKE WATER & SEWAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS – June 30, 2005

NOTE H - EQUITY RESERVE (Continued)

Bond Payments

In 1999, the Authority established a bond payment equity reserve account to provide a method for accumulating funds to avoid large annual changes in charges to the cities for future bond payments. Funds budgeted but unspent each year and interest earned on the bond account is to be retained by the authority in the reserve for use in future years. Likewise, bond payments in excess of budgeted amounts during the year are to be taken from the reserve account. The 2004-05 budgeted and expensed amounts for bond payments were \$940,000 and \$737,730 respectively and interest earned was \$6,197. Therefore the bond payment equity reserve accounts at June 30, 2005, were adjusted to reflect the net change increase of \$208,467, using the cost allocation percentages for each city.

Contingency

A contingency account was established in prior years to provide a reserve for extraordinary expenditures. It was funded by a levy of an additional 10% of the prorated operating costs to each municipality. On May 15, 1979, the Authority approved the change to a flat amount to be determined upon approval of the annual operating budget. No contingency amount was charged to the cities for the year ended June 30, 2005.

A summary of changes in Equity Reserve is as follows:

	Balance			Balance
	07/01/04	Additions	Subtractions	6/30/05
Repair and Replacement	\$ 120,198	\$ 2,343	\$ 43,556	\$ 78,985
Bond Payments	\$ 72,098	\$ 208,467	\$ 0	\$ 280,565
Contingency	\$ 36,758	\$ 0	\$ 0	\$ 36,758

NOTE I - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority has obtained commercial insurance to handle its risk of loss.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

SUPPLEMENTAL FINANCIAL INFORMATION

PORTAGE LAKE WATER & SEWAGE AUTHORITY
STATEMENT OF ACTIVITY - BUDGET AND ACTUAL

Year ended June 30, 2005

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Wages	\$ 231,300.00	\$ 218,251.08	\$ 13,048.92
Payroll taxes	23,900.00	23,032.09	867.91
Employee benefits	121,200.00	120,939.13	260.87
Administrative expense	75,000.00	69,135.96	5,864.04
Office operation	3,200.00	3,163.58	36.42
Power	146,000.00	147,846.00	(1,846.00)
Fuel for heating	14,000.00	13,776.05	223.95
Water	1,400.00	1,371.24	28.76
Phosphate chemicals	39,000.00	41,604.53	(2,604.53)
Snow removal and bed prep	10,000.00	9,762.42	237.58
Maintenance parts and supplies	36,000.00	35,959.84	40.16
Repair and replacement	38,000.00	37,083.08	916.92
Vehicle expense	4,000.00	3,457.93	542.07
Lab and other supplies	10,000.00	10,681.26	(681.26)
Outside lab services	24,000.00	24,280.00	(280.00)
Insurance	34,700.00	34,510.02	189.98
Telephone	10,400.00	10,418.19	(18.19)
Professional services	10,000.00	8,580.78	1,419.22
Training and travel	1,000.00	544.75	455.25
Miscellaneous	0.00	721.03	(721.03)
Total Expenses	833,100.00	815,118.96	17,981.04
Repair and replacement adjustment	-	916.92	(916.92)
		<u>816,035.88</u>	
Principal payments		255,000.00	
Bond interest payment		482,729.74	
Bond payment reserve adjustment		<u>208,466.90</u>	
Total Bond Activity	<u>939,996.00</u>	<u>946,196.64</u>	<u>(6,200.64)</u>
Sub-Total	1,773,096.00	1,762,232.52	10,863.48
Other income	-	(5,668.00)	5,668.00
Interest income	-	(8,094.93)	8,094.93
Repair and replacement interest	-	<u>1,426.24</u>	<u>(477.35)</u>
Total	<u>\$ 1,773,096.00</u>	<u>\$ 1,749,895.83</u>	<u>\$ 24,149.06</u>

PORTAGE LAKE WATER & SEWAGE AUTHORITY
DUE FROM MUNICIPALITIES
Year ended June 30, 2005

	<u>TOTAL</u>	<u>HOUGHTON</u>	<u>HANCOCK</u>
FLOWAGE PERCENTAGES		<u>73.6046%</u>	<u>26.3954%</u>
Prior Year Due From (To)	\$ 36,974.91	\$ 10,213.24	\$ 26,761.67
Amount billed	1,745,520.00	1,286,196.00	459,324.00
Payments received	<u>(1,744,217.91)</u>	<u>(1,296,409.24)</u>	<u>(447,808.67)</u>
DUE FROM (TO) MUNICIPALITIES PRIOR TO ALLOCATION	<u>\$ 38,277.00</u>	<u>\$ 0.00</u>	<u>\$ 38,277.00</u>
AUDIT ADJUSTMENTS:			
Expense (Revenue) Allocation:			
Operating expenses	\$ 815,118.96	\$ 599,965.05	\$ 215,153.91
Repair & Replacement activity	916.92	674.90	242.02
Repair & Replacement interest	1,426.24	1,049.78	376.46
Bond payment activity	202,270.26	148,880.22	53,390.04
Bond reserve interest	6,196.64	4,561.01	1,635.63
Other income	(5,668.00)	(4,171.91)	(1,496.09)
Interest income	(8,094.93)	(5,958.24)	(2,136.69)
Interest expense:			
Direct allocation	22,974.26	14,352.32	8,621.94
Usage allocation	<u>459,755.48</u>	<u>338,401.18</u>	<u>121,354.30</u>
Total Expense (Revenue) Allocation	<u>1,494,895.83</u>	<u>1,097,754.31</u>	<u>397,141.52</u>
Debt Payments:			
Bond Principal Payment			
Direct allocation	12,136.06	7,581.55	4,554.51
Usage allocation	<u>242,863.94</u>	<u>178,759.03</u>	<u>64,104.91</u>
Total bond payments	<u>255,000.00</u>	<u>186,340.58</u>	<u>68,659.42</u>
Total Expense/Revenue and Debt Payments	1,749,895.83	1,284,094.89	465,800.94
Amount billed	<u>(1,745,520.00)</u>	<u>(1,286,196.00)</u>	<u>(459,324.00)</u>
Billed (over) under	4,375.83	(2,101.11)	6,476.94
Due from Municipalities Prior to adjustments	<u>38,277.00</u>	<u>0.00</u>	<u>38,277.00</u>
DUE FROM (TO) MUNICIPALITIES AT END OF YEAR	<u>\$ 42,652.83</u>	<u>\$ (2,101.11)</u>	<u>\$ 44,753.94</u>

PORTAGE LAKE WATER & SEWAGE AUTHORITY
SCHEDULE OF GALLONS PROCESSED
Year ended June 30, 2005

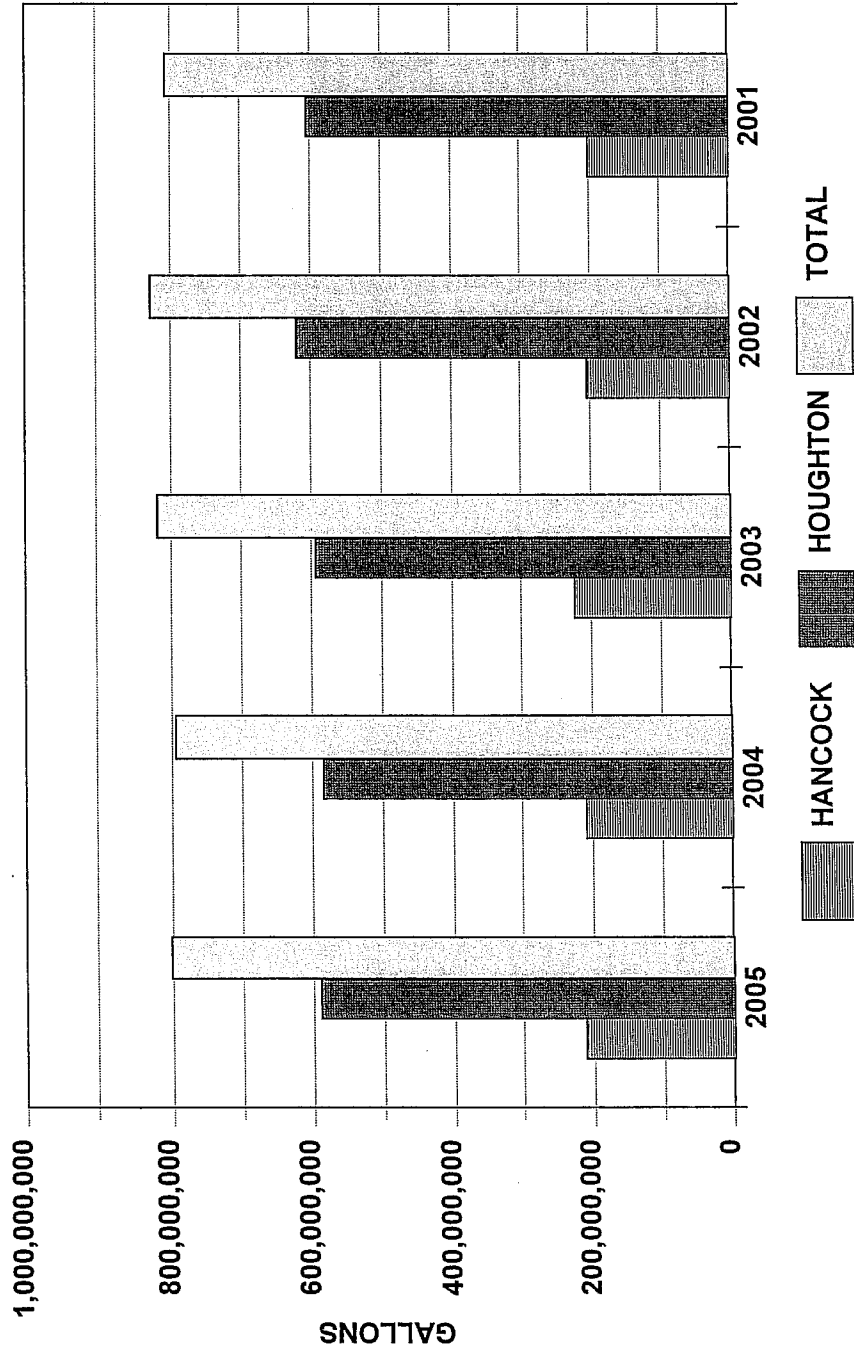
	<u>Total</u>	<u>Percentage</u>
Gallons:		
Houghton	590,022,250	73.6046%
Hancock	211,588,000	26.3954%
TOTALS	<u>801,610,250</u>	<u>100.0000%</u>

FLOWAGE (GALLONS)

HOUGHTON	<u>2003-04</u>	<u>2004-05</u>	<u>Variance Increase (Decrease)</u>
July	39,242,490	42,142,090	2,899,600
August	37,912,490	45,259,490	7,347,000
September	40,330,700	41,132,700	802,000
October	42,959,490	48,617,490	5,658,000
November	46,519,700	42,071,700	(4,448,000)
December	42,828,490	45,833,490	3,005,000
January	37,353,490	44,971,490	7,618,000
February	42,369,120	44,984,120	2,615,000
March	67,865,490	57,355,490	(10,510,000)
April	83,974,700	85,462,000	1,487,300
May	54,681,490	47,594,490	(7,087,000)
June	49,218,700	44,597,700	(4,621,000)
	<u>585,256,350</u>	<u>590,022,250</u>	<u>4,765,900</u>

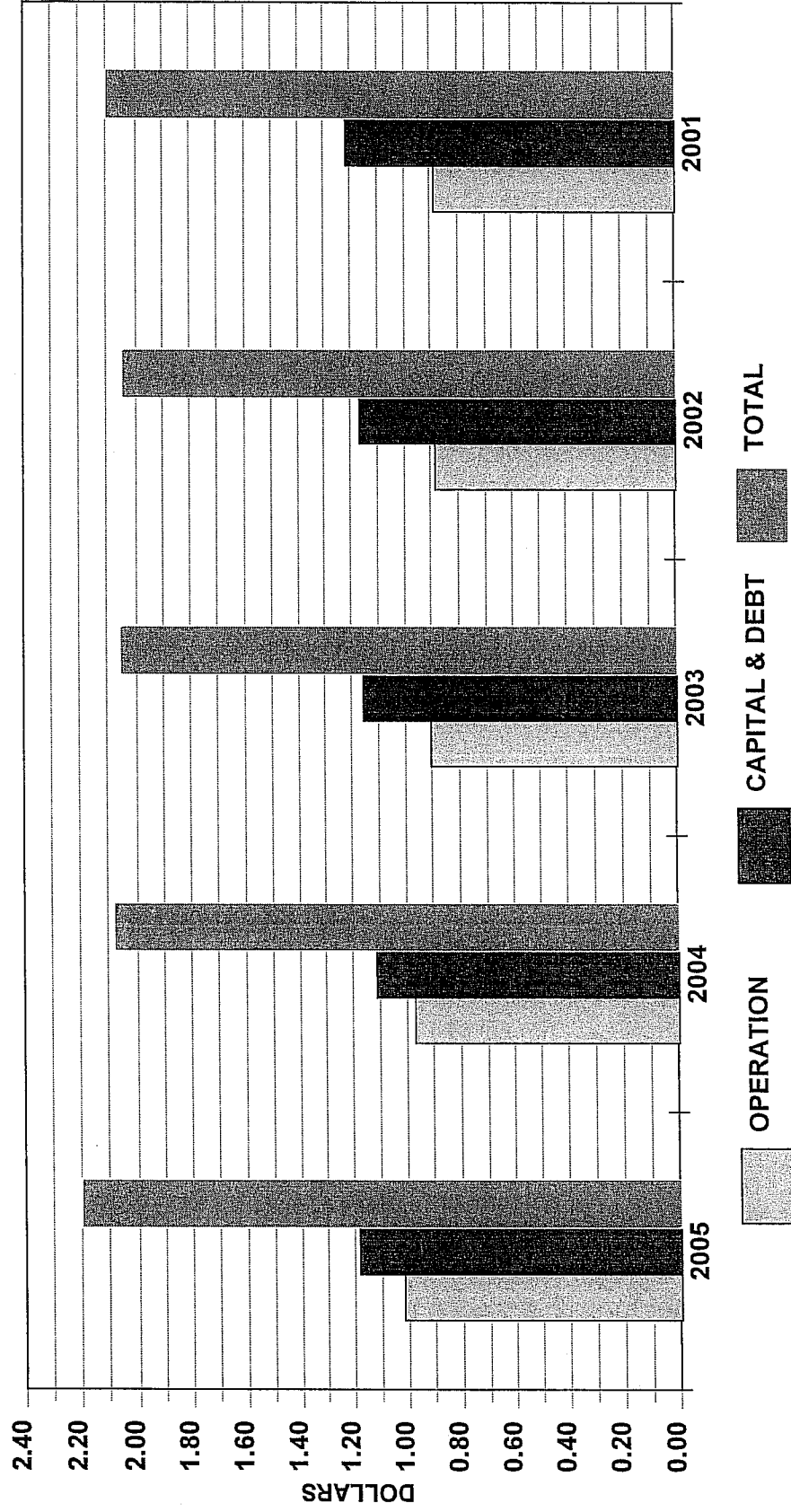
HANCOCK	<u>2003-04</u>	<u>2004-05</u>	<u>Variance Increase (Decrease)</u>
July	15,078,000	14,512,000	(566,000)
August	13,157,000	15,851,000	2,694,000
September	13,179,000	13,936,000	757,000
October	13,818,000	16,291,000	2,473,000
November	15,401,000	14,762,000	(639,000)
December	15,650,000	16,228,000	578,000
January	15,339,000	16,351,000	1,012,000
February	14,485,000	16,083,000	1,598,000
March	27,208,000	22,393,000	(4,815,000)
April	29,673,000	32,101,000	2,428,000
May	18,820,000	16,954,000	(1,866,000)
June	17,195,000	16,126,000	(1,069,000)
	<u>209,003,000</u>	<u>211,588,000</u>	<u>2,585,000</u>

PORTAGE LAKE WATER & SEWAGE AUTHORITY
FLOWAGE ANALYSIS
Year ended June 30, 2005



PORTAGE LAKE WATER & SEWAGE AUTHORITY
NET OPERATING COST PER 1,000 GALLONS

Year ended June 30, 2005





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LETTER OF COMMENTS AND RECOMMENDATIONS

Board of Trustees
Portage Lake Water & Sewage Authority
Houghton, Michigan 49931

We have audited the financial statements of the Portage Lake Water & Sewage Authority as of and for the year ended June 30, 2005, and have issued our report thereon dated August 23, 2005.

The following suggestions are submitted to assist in improving procedures and controls.

Depreciation

(Repeat of prior year comment)

Currently the Authority does not depreciate long-term assets (property, plant, and equipment) as required by generally accepted accounting principles which requires that long-term assets be systematically depreciated over their estimated useful lives. It was not determined during the audit if adequate and accurate records exist for computing depreciation. We would recommend that the Authority attempt to develop these records and depreciate assets in accordance with required accounting practices.

Amortization

(Repeat of prior year comment)

Currently the Authority does not amortize bond refunding costs or gain on defeased debt relating to its bond issue as required by generally accepted accounting principles which requires that bond refunding costs and gain on defeased debt be amortized over the remaining life of the defeased debt or the life of the debt. We would recommend that the Board consider the recording of these transactions.

Accrued Compensated Absences

(Repeat of prior year comment)

At June 30, 2005, the Authority had accrued unpaid employee sick and vacation time totaling \$27,299. (See Note G to financial statement). In accordance with generally accepted accounting principles the Authority is required to record this amount as a liability on its financial statements. We would recommend that the Board consider the recording of this liability.

Insured Deposits

We noted approximately ninety-two percent (92%) of the Authority's deposits are insured by the Federal Deposit Insurance Corporation (FDIC). We recommend extending deposits to various financial institutions to decrease the risk of loss to the District.

GASB 34

Although the Local Audit and Finance Division of the Michigan Department of Treasury has allowed a reporting exception to the implementation of Governmental Accounting Standards Board Statement No. 34 (GASB 34) for various Michigan local cities and municipalities, we recommend the Authority adopt the major changes from GASB 34 to comply with GAAP. This requires the Authority to issue government-wide financial statements based on full accrual accounting.

We would like to thank the staff for the excellent cooperation we received during our audit. We appreciate the opportunity to present the above suggestions and are prepared to discuss them at your convenience.

This report is intended for the information of the board of trustees, management, the oversight audit agency, and other federal and state audit agencies, and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Bruce A. Rukhila, CPA, PC

Certified Public Accountants

August 23, 2005